TESTIMONY OF PAUL ROSSI
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Energy and Technology Committee
March 4, 2014

RE: SENATE BILL NO. 359, AN ACT CONCERNING DEVELOPMENT OF ENERGY-RELATED TECHNOLOGIES

Good afternoon. My name is Paul Rossi, Vice President of North American Power and Gas, LLC ("NAPG"). North American Power and Gas appreciates the opportunity to provide written testimony to the Energy and Technology Committee on *Raised Senate Bill No. 359, An Act Concerning Development of Energy-Related Technologies.*

The Connecticut Comprehensive Energy Strategy dated February 19, 2013 provided *"a foundation for better informed policy, regulatory, and legislative decisions – as well as better energy choices at the household and business level."* It also pledged to make gas available in the future to as many as 300,000 additional Connecticut homes and businesses and thereby greatly expand the Connecticut retail gas market above an existing base of approximately 500,000 customers.

Under the development of energy-related technologies, Connecticut should explore the option to update its existing "retail choice" natural gas program, through legislation and by encouraging the opening of a regulatory proceeding, consistent with the goal of market expansion and increased access to natural gas. An updated and expanded retail natural gas program would benefit consumers and utilities; and it would provide the opportunity to improve system reliability, deliver economic and environmental benefits and leverage private capital.

Retail gas choice is presently limited in Connecticut to commercial and industrial customers, but should be available as in other states to all customers—residential, commercial and industrial. Retail gas program design, data systems and industry best practices have significantly evolved since the implementation of Connecticut's program in the late 1990s and the Connecticut program has not advanced or been thoroughly reexamined in over a decade.

Current Program

Under Connecticut's natural gas "retail choice" program, commercial and industrial customers are free to either choose their own natural gas supplier or to purchase supplies from the utility. While commercial and industrial customers have actively participated in this program, the program has not fundamentally advanced over the years and residential customers continue to be excluded from the market. The market design and business rules for Connecticut's retail program were established in the late 1990's in Docket No. 97-07-11, DPUC Investigation into Issues Associated with the Unbundling of Natural Gas Services by Connecticut Local Distribution Companies and subsequent dockets and reopeners.

Connecticut's retail gas choice program has not kept pace with its electric program and as described shuts out the largest segment of customers namely the residential market. Based on recent data from the Energy Information Administration ("EIA"), of Connecticut's nearly 500,000 residential gas customers those participating in retail choice numbered only 0.2% or 897 customers in 2012. Unlike retail natural gas, there has been significant participation by residential customers in Connecticut's electric program with a high percentage of retail "migration" away from utility standard service towards supplies from retail marketers.

The latest data filed with the Public Utility Regulatory Authority ("PURA") from Connecticut Light and Power and United Illuminating reflects that of Connecticut's 1.4 Million residential electric customers, the number participating in retail choice was 42% or 585,323 customers as of February 2014 (CL&P and UI Compliance Filings in Docket No.06-10-22 DPUC Monitoring the State of Competition in the Electric Industry).

Benefits of Expanding the Retail Natural Gas Program

Significant benefits would accrue to Connecticut by expanding retail choice to the existing 500,000 residential gas customers and 300,000 additional customers anticipated through oil to natural gas conversions. Competitive markets result in price competition and provide customer choice including fixed and variable pricing options, long-term and short term contracts, green products and energy efficiency. Additional benefits by expanding residential gas choice include:

Value

- Consumers have differing preferences of what constitutes value (price, service, technology, etc.).

Savings

- Illinois Commerce Commission Office of Retail Market Development evaluated the savings achieved by shopping residential electric customers. For the twelve month period of June 2011-May 2012, Illinois shopping customers saved $24 million. For the twelve month period of June 2012-May 2013, customer savings were estimated to be $268 million.
- Public Utilities Commission of Ohio Staff's evaluation of the savings achieved for consumers under the auctions versus the traditional utility GCR pricing mechanism found that DEO customers saved over $2.4 million per month (9%), VEDO customers saved almost $1 million per month (9%), and Columbia customers saved almost $2.4 million per month (15%).

Choice

- The freedom to choose a competitive supplier versus a utility monopoly for residential consumers has been institutionalized for electric but not for natural gas. Commercial/industrial consumers have had this right since 1996.

Capital Requirements and System Reliability

- The cost of natural gas is a pass-through to ratepayers and the utility receives no financial incentive or return on purchased gas costs. The utility however must meet credit requirements, maintain working capital and manage supplies while earning no return on gas commodity.
- Competitive markets introduce private capital that supports energy procurement and that reduces or offsets credit requirements of the utilities. Connecticut's gas utilities face significant capital requirements for system reliability, residential conversions from oil to natural gas and aging infrastructure.

Product and Service Innovation

- Regulated utilities have very limited incentive to innovate and are slow to adopt new products, services and technology relative to firms in the competitive market. Competitive suppliers are directly incented to better meet a consumer's individual needs (customer service, rate plans, promotions and rewards).

Competitive Pricing Pressure

- A fundamental driver of competition is downward pressure on prices. The ability to compete with lower prices allows competitive suppliers to attract and retain loyal and satisfied customers.

Mitigate Risks and Costs Borne by Current Captive Utility Customers

- Regulated rates are a poor proxy for the efficiencies, innovations and potential price savings yielded by competitive markets. Competitive market participants are expert at controlling supply-related risks, and they do so without the requisite guaranteed return of and return on utility investments, the risks of which are borne by captive ratepayers.

Utility Core Competency Focusing on Infrastructure Maintenance, Upgrades, and Efficiency

- Competition has benefitted utilities by making them more efficient – capital can be redeployed from competitive functions to invest in infrastructure to promote reliability.

Customer Service and Accountability

- Retail marketers wish to enter the Connecticut residential gas market, but their presence is limited solely due to program design.
- It is in suppliers' competitive best interest to have satisfied customers.
- Minimal number of consumer complaints compared to large number of consumer contacts.

Consumer Education

- A major public service is achieved and energy goals are more easily accomplished when energy consumers are better educated and more involved in making energy choices.

Economic Growth

- Lower energy prices increase the competitiveness of local business, attract new business to the state, increase economic activity and operate in a manner similar to a tax rollback for businesses and consumers alike.

Conclusion

Connecticut's retail natural gas choice program has not kept pace with its electric program or with that of other states including neighboring New York and New Jersey. The program design excludes the biggest segment of natural gas customers, i.e., the residential market, and has not been reexamined against the backdrop of the state's gas expansion strategy. Under the development of energy-related technologies, Connecticut should explore the option to update its existing "retail choice" natural gas program, through legislation and by encouraging the opening of a regulatory proceeding to review program design and objectives, consistent with the goal of market expansion and increased access to natural gas. An updated and expanded retail natural gas program would benefit consumers and utilities; and it would provide the opportunity to improve system reliability, deliver economic and environmental benefits, and leverage private capital.

Thank you for the opportunity to provide testimony on this bill.